

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2009-226-E

In the Matter of:

Application of Duke Energy Carolinas,
LLC for Authority to Adjust and Increase
Its Electric Rates and Charges

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**DIRECT TESTIMONY OF
J. DANNY WILES FOR
DUKE ENERGY CAROLINAS, LLC**

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is J. Danny Wiles and my business address is 526 South Church Street,
Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC as Vice President,
Franchised Electric & Gas Accounting for Duke Energy Corporation (“Duke
Energy”). I am an officer of Duke Energy Carolinas, LLC (“Duke Energy
Carolinas” or the “Company”) with the title of Vice President, Accounting.

**Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL
QUALIFICATIONS.**

A. I graduated from the University of North Carolina at Chapel Hill with a Bachelor
of Science in Business Administration. I am a certified public accountant and a
member of the American Institute of Certified Public Accountants (“CPAs”).

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I practiced public accounting for 16 years with Arthur Andersen, LLP, where I
was promoted to Audit Partner in 1999. I joined Duke Energy Corporation in
2002 as Managing Director of Corporate Accounting Research. I became Vice
President of Duke Energy’s U.S. Franchised Electric & Gas (“Franchised
Electric”) Business Unit in February 2008. I also am one of the Company’s
accounting representatives with Edison Electric Institute, a trade association of
electric utility companies.

1 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS VICE PRESIDENT,**
2 **ACCOUNTING.**

3 A. As Vice President, Accounting, I have overall responsibility for the accounting
4 functions of the Company's Franchised Electric business segment, which includes
5 Duke Energy Carolinas' regulated utility businesses in South Carolina and North
6 Carolina. I am responsible for the books of account, accounting records, and
7 financial statements for the Franchised Electric operations of these regulated
8 utility businesses.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. My testimony will cover the financial position of Duke Energy Carolinas at
11 December 31, 2008, and actual results of the Company's operations for the
12 calendar year ending December 31, 2008. The Company's financial position and
13 operating results and the actual data required under 26 S.C. Code Ann. Reg. 103-
14 823 of the Public Service Commission of South Carolina's ("Commission") Rules
15 and Regulations are set forth in Wiles Exhibit 1 and in the column labeled "Total
16 Company Per Books" in Shrum Exhibit 1. I also discuss the amount of the
17 Company's nuclear decommissioning costs recorded in the test year and the
18 results of the Company's funding study using the 2009 nuclear decommissioning
19 cost study.

20 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**
21 **BOOKS OF ACCOUNT OF DUKE ENERGY CAROLINAS?**

22 A. Yes. The books of account of Duke Energy Carolinas follow the Uniform System
23 of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

1 This Uniform System of Accounts has been adopted by the Commission and is
2 followed by major utilities subject to its jurisdiction.

3 **Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS**
4 **BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?**

5 A. Duke Energy Carolinas maintains and relies upon an extensive system of internal
6 accounting controls and audits by both internal and external auditors. The system
7 of internal accounting controls provides reasonable assurance that all transactions
8 are executed in accordance with management's authorization and are recorded
9 properly.

10 The system of internal accounting controls is reviewed annually, tested,
11 and documented by the Company to provide reasonable assurance that amounts
12 recorded on the books and records of the Company are accurate and proper. In
13 addition, independent certified public accountants perform an annual audit to
14 provide assurance that internal accounting controls are operating effectively and
15 that the Company's financial statements are materially accurate.

16 **II. 2008 FINANCIAL POSITION AND RESULTS**

17 **Q. PLEASE DESCRIBE WHAT IS PRESENTED ON WILES EXHIBIT 1.**

18 A. Wiles Exhibit 1 sets forth the Company's financial statements. Pages 1 and 2
19 contain the Company's Unconsolidated Balance Sheet at December 31, 2008.
20 Page 3 is the Company's Unconsolidated Income Statement for the year ended
21 December 31, 2008. Page 4 is the Company's Unconsolidated Statement of
22 Capitalization at December 31, 2008. The actual capitalization also is shown on
23 Column 1 of Page 2 of Shrum Exhibit 1. This information is shown on Pages 5
24 through 5c of Exhibit C to the Company's Application, as well.

1 **Q. ARE THE CAPITAL EXPENDITURES AND OPERATING EXPENSES**
2 **REPRESENTED ON WILES EXHIBIT 1 ACCURATE?**

3 A. Yes. An integral part of the Company's system of internal accounting controls
4 includes various budgeting, planning, and review procedures to establish and
5 monitor the capital and operating budgets, as well as actual expenditures.

6 **Q. PLEASE EXPLAIN WHAT IS PRESENTED ON THE COLUMN**
7 **LABELED "TOTAL COMPANY PER BOOKS" ON PAGES 1, 4, AND 4a**
8 **THROUGH 4d OF SHRUM EXHIBIT 1.**

9 A. The "Total Company Per Books" columns on Pages 1, 4, and 4a through 4d of
10 Shrum Exhibit 1 show the actual 2008 amounts recorded on the books of Duke
11 Energy Carolinas, with one exception. The working capital amount for funds for
12 operations shown on Line 4 of Page 4d is calculated using a one-eighth operations
13 and maintenance formula which is discussed in the testimony of Witness Shrum.
14 Column 1 on Page 1 sets forth the operating income from electric operations for
15 Duke Energy Carolinas for the year ending December 31, 2008. The Company's
16 balances at December 31, 2008 for electric plant in service, accumulated
17 depreciation and amortization, materials and supplies, working capital investment,
18 accumulated deferred taxes, and operating reserves are shown in Column 1 on
19 Pages 4 through 4d.

1 **III. NUCLEAR DECOMMISSIONING AND DEPRECIATION RATES**

2 **Q. WHAT AMOUNT OF NUCLEAR DECOMMISSIONING EXPENSE IS**
3 **INCLUDED IN DUKE ENERGY CAROLINAS' 2008 PER BOOK**
4 **AMOUNT FOR DEPRECIATION EXPENSE?**

5 A. Included on Line 5 in Column 1 of Page 1 of Shrum Exhibit 1 is an amount for
6 nuclear decommissioning expenses of \$48.3 million. The South Carolina retail
7 portion is approximately \$12 million. The Commission approved the recovery by
8 Duke Energy Carolinas of funding requirements for the decommissioning of its
9 nuclear power plants through rates in Order No. 91-1022, dated November 18,
10 1991, in Docket No. 91-216-E. The Company has submitted periodic reports to
11 the Commission as required by Order No. 91-1022 that provided updates on
12 decommissioning cost studies and the status of the funds. The test year expense
13 amount for nuclear decommissioning was derived from the Company's 2005
14 funding study, which was based on its 2004 Decommissioning Cost Study. The
15 2009 Decommissioning Cost Study determined that the estimated site-specific
16 nuclear decommissioning costs for the Company's ownership interest in the listed
17 nuclear units total approximately \$3 billion. The amounts in the studies are based
18 on the prompt dismantlement method of decommissioning, as approved by this
19 Commission in light of the Nuclear Regulatory Commission requirement that total
20 funding is required as of the date of termination of the operating license of each
21 unit.

22 Duke Energy Carolinas filed its 2009 Decommissioning Cost Study based
23 on its 2009 decommissioning cost studies for the Catawba, McGuire, and Oconee
24 nuclear units in Docket No. 1991-216-E on April 10, 2009. The Company also

1 filed on July 24, 2009 in Docket No. 1991-216-E a Decommissioning Cost and
2 Funding Report showing the results of a discounted cash flow analysis that
3 combines the new decommissioning cost estimates from the 2009 cost studies
4 with assumptions regarding future cost escalation and trust fund earnings. An
5 annuity is calculated from the results to provide for an annual levelized funding of
6 expected nuclear decommissioning costs. Because the annual levelized funding
7 amount as shown on the 2009 Decommissioning Cost and Funding Report does
8 not differ significantly from the test year nuclear decommissioning expense, the
9 Company recommends no change in the actual 2008 level of nuclear
10 decommissioning expense recorded in the test year.

11 **Q. PLEASE EXPLAIN THE DEPRECIATION RATES SHOWN ON SHRUM**
12 **EXHIBIT 1, PAGE 4b.**

13 A. The depreciation rates shown on Page 4b of Shrum Exhibit 1 are the depreciation
14 rates recommended by Company Witness Spanos that the Company has accepted.
15 Duke Energy Carolinas Witness Spanos testifies to the reasonableness of these
16 depreciation rates. The nuclear depreciation rate excludes nuclear
17 decommissioning expenses.

18 **IV. CONCLUSION**

19 **Q. WAS WILES EXHIBIT 1 PREPARED BY YOU OR UNDER YOUR**
20 **DIRECTION AND SUPERVISION?**

21 A. Yes, it was.

22 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

23 A. Yes.